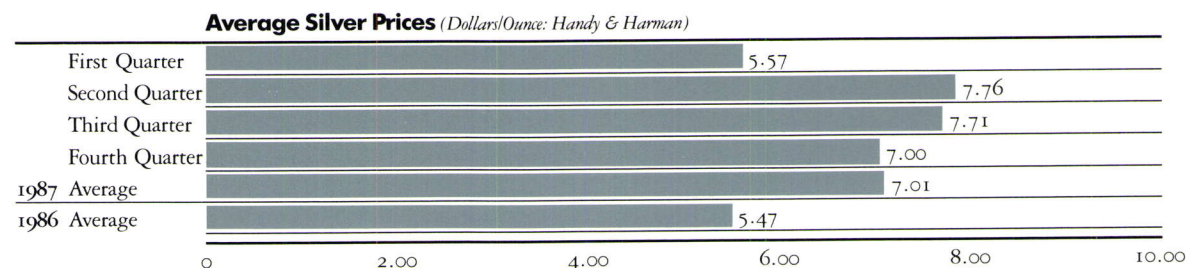
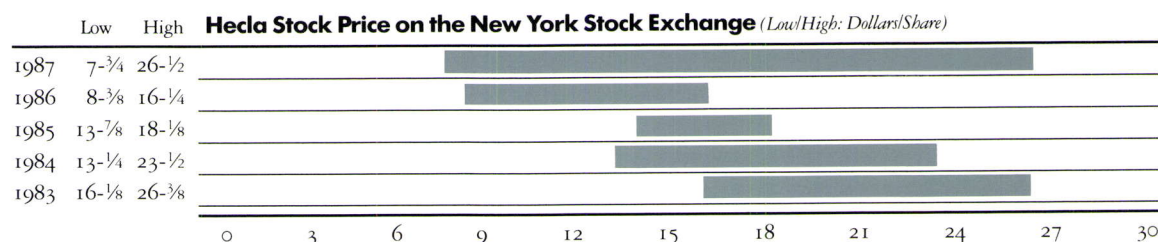




RESULTS IN BRIEF

HECLA MINING COMPANY AND SUBSIDIARIES.

	1987	1986	1985
<i>(dollars in thousands except per-share amounts)</i>			
Net sales			
Gold operations	\$34,896	\$14,970	\$11,149
Silver operations	29,878	25,032	46,368
Industrial minerals	22,372	20,933	21,917
Total sales	\$87,146	\$60,935	\$79,434
Operating income (loss)			
Gold operations	\$25,230	\$ 8,148	\$ 5,502
Silver operations	2,345	(4,524)	4,278
Industrial minerals	6,608	6,874	7,375
Total operating income	\$34,183	\$10,498	\$17,155
Total revenue	\$88,690	\$62,057	\$81,125
Net income (loss)	10,336	(21,232)	(4,224)
Per share	.38	(.79)	(.16)
Cash dividend per share	\$.05	\$.05	\$.20
Year-end			
Common shares issued	27,040,832	26,993,738	26,993,738
Shareholders of record	17,795	19,749	20,708
Employees	795	653	945



TO OUR SHAREHOLDERS



1987 was a year of progress in achieving the goals we have set for our Company. Most important, of course, was the return to profitability. The recent years of consolidation and belt-tightening have finally paid off and we are able to report a net profit of \$10.3 million or 38¢ a share for the year. This compares to a loss of \$21.2 million or 79¢ per share in 1986 and a loss of \$4.2 million or 16¢ a share in 1985.

Precious metals prices, which were much better in 1987 than in the previous three years, obviously had an effect on our improved results as revenues climbed to \$88.7 million in 1987 from \$62 million in 1986. Our precious metals mines operated very well during the year, so we were in a position to take advantage of those better prices. At Republic we produced a little more than 70,000 ounces of gold, a record year for that mine, making it once again our most profitable operation. I am also very pleased with our success in discovering new ore reserves there and Republic should continue to produce at its current high rate for the next several years. At the Lucky Friday Unit, improved metals prices, coupled with the successful negotiation of a labor agreement, led to reopening the mine. While at this writing precious metals prices have weakened from recent levels, we are still optimistic about the future, and one of our goals is to substantially increase production of both gold and silver. With that in mind, we purchased from BP Minerals a 28% interest in the Greens Creek project, a polymetallic ore deposit located on Admiralty Island near Juneau, Alaska. This mine is scheduled to come on stream in early 1989, and when in full production will be the largest silver mine in the United States and a significant producer of gold, zinc and lead. We also plan to bring into production a new gold mine at Yellow Pine in southcentral Idaho during 1988, adding approximately 25,000 ounces to our yearly production total. In early 1988 we purchased an additional 1.1 million shares of Granduc Mines Limited, enough to give Hecla a 51% interest in the company. Granduc owns a 40% interest in the Sulphurets Project, a very promising gold/silver property in northwestern British Columbia. Hecla's exploration team continues to search for new precious metals ore bodies in the USA and Canada.

Revenue from the sale of industrial minerals products was higher in 1987 compared to the previous two years, but operating income was lower. So while the number of tons of both ball clay and scoria sold were well above those sold in recent years, certain price concessions and higher sales costs led to lower profit margins. Our strategy is to regain market share that has been eroded over the past few years because of keen price competition. We like the stability that industrial minerals bring to our business and it is one of our goals to significantly increase income from this segment either through expansion of the existing businesses or acquisition of similar enterprises.

During the year we made excellent progress toward our goal of entering the high-value specialty metals business. Chemical process development and marketing studies were completed as part of the feasibility study to develop the Thor Lake beryllium deposit in the Northwest Territories of Canada. We are very encouraged by the work to date, and while a production decision has not been made, we have allocated another \$2.5 million to be spent during 1988 for refinement of the chemical process, further market development, and environmental baseline studies. Last year for the first time we assigned a team of geologists and allocated funds specifically for the exploration of high-value specialty metals throughout the United States and Canada.

Financially our Company remains strong. Our bank borrowings have been modest even with the acquisition and development costs of Greens Creek, the costs associated with the beryllium project and continuing heavy exploration expenditures. With the return to profitability, the Board of Directors declared a 5¢ per share dividend in the fourth quarter.

An important period in the history of Hecla Mining Company ended in 1987 with the retirement of Mr. William A. Griffith as chairman and chief executive officer. Mr. Griffith served our Company for nineteen years, the last eight as president and/or chairman and chief executive officer. He led our Company through a very difficult period to a position of financial strength and prestige within the industry. While Mr. Griffith will no longer show up at 7 a.m. for work every day, we are fortunate that we have the benefit of his counsel as he continues to serve on our board. I was named president and chief executive officer

by the board at its May meeting and elected chairman after the retirement of Mr. Griffith in June. Last year also saw the retirement of Mr. Fred E. Burnet as a director. Mr. Burnet had served since 1981 and was a particularly valuable director because of his broad mining and executive experience. Mr. Leland Erdahl, former chief executive of Ranchers Exploration and Development Corporation, and Mr. Griffith were reelected to serve on the board for additional three-year terms.

My first year as chief executive officer has been exciting. I was handed the reins of a financially sound company with an outstanding group of people to help me run it. We refined some of the goals for the Company and I have tried to give you an indication of where we are headed. I was also lucky. Soon after becoming chairman, metals prices improved, but I know the price of the products we sell will not always be up and there will probably be tough years to go with the good ones. I have worked for Hecla for over twenty years and have had some pretty good teachers in the process of consolidation and belt-tightening to be used if times do get tough. I have looked forward with a great deal of anticipation to the day when I would manage our Company. Now that the time has arrived, I know I can rely on the continued support of our shareholders, employees, and customers.



Arthur Brown
*Chairman, President and
Chief Executive Officer*

OPERATIONS REVIEW

Precious Metals. Hecla's gold operations achieved outstanding results in 1987. Total production increased sharply and record gold sales accounted for 38% of total sales revenue. Total silver production in 1987 of 3.8 million ounces was well below full production levels due to the temporary closure of the Lucky Friday Mine.

Republic Unit. Gold production at Hecla's Republic Unit in 1987 was 70,095 ounces, 76% above the 39,866 ounces produced in 1986. Average ore grade increased significantly during the year as mining activities moved into the new higher-grade Golden Promise area of the mine. Recovered grade was up 43% to .97 ounce of gold per ton compared to .68 ounce per ton in 1986. Republic's silver output more than doubled in 1987 to 341,000 ounces due to improved grade and higher production levels at the mine.

Republic Unit	1987	1986	1985	1984	1983
Tons of ore milled	72,491	58,681	60,551	61,440	61,365
Gold (ounces per ton)					
Recovered grade	.97	.68	.65	.37	.21
Silver (ounces per ton)					
Recovered grade	4.71	2.29	1.68	1.32	1.01
Metals produced					
Gold (ounces)	70,095	39,866	39,192	22,757	12,743
Silver (ounces)	341,272	134,412	101,521	80,967	62,033

Capital improvements in 1987 included installation of a new mine backfill storage and delivery system and upgrading of the mine pumping system.

Proven and probable ore reserves increased from 372,000 tons at one ounce of gold per ton in 1986 to 515,000 tons at .8 ounce of gold per ton in 1987.

Lucky Friday Unit. The Lucky Friday mine began a phased-in recall of the work force on June 1, 1987 after having been closed for 14 months due to low silver prices. By year's end, 75% of the ultimate work force had been recalled. The mine produced 667,000 ounces of silver and 4,500 tons of lead in 1987. Recovered grade of silver was down in 1987 due to rehabilitation work done in conjunction with the start-up of operations.

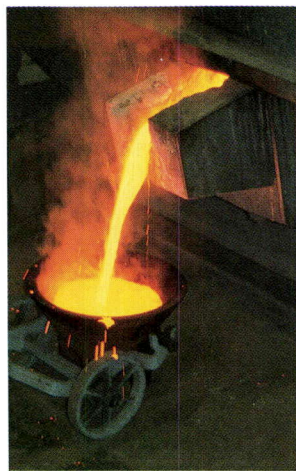
A new 3-year labor agreement calling for an immediate 15% reduction in wages and benefits was reached on July 22. Further reductions become effective in the second year of the contract in return for worker participation in a profit-sharing program.

Lucky Friday Unit

(Resumed operation June 1, 1987)

	1987	1986	1985	1984	1983
Tons of ore milled	45,165	82,041	276,817	257,315	257,252
Silver (ounces per ton)					
Recovered grade	14.8	16.1	17.1	18.6	19.7
Lead recovered (percent)	10.1	13.3	12.6	12.2	10.8
Zinc recovered (percent)	2.2	1.5	1.4	1.3	.8
Metals produced					
Silver (ounces)	667,442	1,324,182	4,740,971	4,795,758	5,077,182
Lead (tons)	4,548	10,890	34,789	31,336	27,849
Zinc (tons)	989	1,254	3,915	3,304	2,143
Copper (tons)	110	143	534	442	756
Gold (ounces)	261	611	2,429	2,740	2,566

The new Lucky Friday underhand longwall mining method (LFUL) was implemented on the 5,300 level of the mine when operations resumed in 1987. The new method utilizes mechanized equipment, a ramp system and cemented sand fill to reduce mining costs and improve safety. Virtually all of the major mechanized equipment required for the new mining method has been purchased and is now on site. All five LFUL production stopes are scheduled to be producing by the end of 1988.



Mining activities at Hecla's Republic Unit gold operations concentrated in the new higher grade Golden Promise area of the mine in 1987. Gold precipitate from Republic is processed into doré metal at Hecla's Escalante Unit in southwestern Utah.

Escalante Unit. The Escalante Unit operated at full production levels throughout the year producing 2.3 million ounces of silver. The presently known ore body is now fully developed and will be mined out by February of 1989 unless more ore reserves are found. A sizable stockpile of crushed ore on the surface will keep the mill operating through December of 1990.

Escalante Unit					
	1987	1986	1985	1984	1983
Tons of ore milled	294,098	305,717	296,946	286,554	284,818
Silver (ounces per ton)					
Recovered grade	7.66	7.44	8.21	7.8	7.9
Metals produced					
Silver (ounces)	2,252,942	2,274,924	2,438,978	2,235,781	2,247,479
Gold (ounces)	1,080				

The Escalante has been a steady producer since its start-up in 1981 and Hecla's exploration staff is hopeful that additional ore reserves will be discovered there.

Galena Unit. The Galena Unit, in which Hecla has a 12 1/2% interest, is owned by Callahan Mining Corporation and operated by ASARCO Incorporated. The Galena mine produced 411,000 ounces of silver for Hecla's account in 1987. Hecla's share of proven and probable mineral reserves at the Galena increased slightly to 150,000 tons grading 16.1 ounces of silver per ton.

Galena Unit (Reflects Hecla's 12 1/2% share)					
	1987	1986	1985	1984	1983
Tons of ore milled	25,094	25,102	25,022	26,125	24,428
Silver (ounces per ton)					
Recovered grade	16.4	19.9	20.5	20.1	19.5
Metals produced					
Silver (ounces)	411,005	499,715	512,941	524,302	477,590
Copper (tons)	121	141	154	172	153
Gold (ounces)	60	60	73	90	—



Coeur Unit. Hecla holds a 5% interest in the Coeur silver mine near Osburn, Idaho. The mine is operated by ASARCO Incorporated under a long-term lease from Coeur d'Alene Mines Corporation. In 1987 the Coeur Unit produced 123,000 ounces of silver for Hecla's account, down somewhat from the 137,000 ounces produced in 1986. ■

Coeur Unit (Reflects Hecla's 5% share)					
	1987	1986	1985	1984	1983
Tons of ore milled	7,728	7,731	7,561	7,213	7,004
Silver (ounces per ton)					
Recovered grade	15.9	17.7	17.4	17.2	18.4
Metals produced					
Silver (ounces)	122,846	137,156	131,413	124,227	129,092
Copper (tons)	58	62	61	61	56
Gold (ounces)	20	17	16	15	16



Opposite and left, Hecla began a phased-in start-up of the Lucky Friday mine on June 1, and by year-end 145 employees had been recalled. The eventual full employment level of 190 workers will be about 50 fewer than pre-shutdown levels due to efficiencies gained under the new mechanized mining method.

Industrial Minerals. Revenue of \$22.4 million from industrial minerals was up 7% in 1987 reflecting increased production and sales. Operating income in 1987 was down slightly due to increased competitive pressures in the marketplace. Industrial minerals sales accounted for 26% of total sales revenue in 1987.

Kentucky-Tennessee Clay Company.

Kentucky-Tennessee Clay Company (K-T Clay) operates open-pit ball clay mines and processing plants in Kentucky, Tennessee and Mississippi. The company maintains a dominant position in the domestic ball clay market, supplying approximately 50% of U.S. requirements.

Ball clay shipments in 1987 totaled 411,000 tons, 3% above the 399,000 tons shipped in 1986. Ball Clay is a fine-grained, plastic, white firing clay used principally as a bonding agent in sanitaryware, pottery, floor and wall tile, refractories, dinnerware and electrical porcelain.

During the year K-T Clay formalized a new sales task force which initiated a major effort to expand sales and penetrate new markets. Sales territories were reorganized, and the task force has been successful in developing targeted accounts, expanding export sales, and generating new sales in several key product areas. K-T Clay also developed an operating task force to complement the sales unit in developing new, safer and more efficient methods of producing and delivering ball clay products to K-T Clay customers.

Industrial Minerals Subsidiaries

	1987	1986	1985	1984	1983
Ball Clay (tons shipped)	410,914	398,769	401,270	411,202	371,301
Scoria (tons shipped)	63,468	54,555	53,858	47,313	49,676

Capital improvements made during the year included installation of new stacking equipment, purchase of land for additional clay reserves and replacement of certain earth moving and haulage equipment.

During the year K-T Clay successfully introduced two new products, a new Kentucky Clay slurry and a new tile clay blend. New products and the expanded sales effort along with K-T Clay's continued commitment to quality control point to continued success in an increasingly competitive marketplace.

Colorado Aggregate Company.

Colorado Aggregate Company (CAC) shipped 63,000 tons of scoria products in 1987, a 15% increase over the 55,000 tons shipped in 1986. CAC operates volcanic scoria mines in New Mexico and Colorado and has processing plants located in Blanca and Mesita, Colorado.

Scoria is a clinker-like volcanic rock that is lightweight and has a desirable natural color ranging from pink to deep red to black. It is used primarily in landscape applications and as briquettes in gas-fired barbecues.

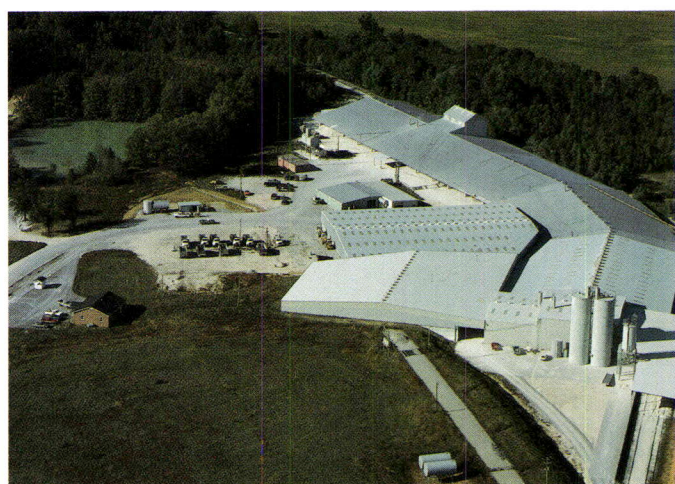
In 1987 CAC purchased and began operating a new mobile crushing plant to eliminate the need for contract services, thereby reducing costs. The crushing plant provides the company direct operating cost savings and the flexibility to move quickly to different mine locations. Semi-automatic bagging systems were added at the Mesita facility to provide a more efficient, cleaner, safer work environment.

CAC also added several new products to its sales line in 1987. A new Geo-textile weed barrier fabric was developed as a landscape underlayment to be sold with the company's other landscape products under the trade name "Guardian," and a new gas grill clean-up kit will be available in stores early in 1988. "Mite-t-lite" ground cover, a new lightweight scoria product, was added during the year and the company upgraded its "Angel Lite" aquarium gravel products.

In 1987 CAC's sales goals were exceeded and new landscape sales objectives were realized in Canada and the northeastern and southwestern United States. Increased competition in the marketplace and shrinking profit margins dictate even more aggressive sales and market development efforts in 1988. ■



After removal of overburden, exposed ball clay is selectively mined and transported by truck to a nearby processing plant. When mining is complete, overburden and topsoil are replaced and the land revegetated.



K-T Clay's Gleason Processing Plant, left, is one of four operated by the company. On the right is a typical application of Colorado Aggregate Company's landscape scoria product.



Exploration. Exploration for gold, silver and specialty metals was conducted on 35 projects in the western United States and at 7 Canadian sites in 1987. In 1988, the Company plans to increase exploration expenditures to \$6.9 million, compared to \$5 million in 1987, and to maintain exploration offices in Coeur d'Alene, Reno and Denver.

At **Republic**, exploration and development in 1987 identified four new ore-grade discoveries on previously unmined ore shoots. Historically, a typical ore shoot at the mine has produced 100,000 tons.

Proven and probable reserves at Republic increased to 515,000 tons at .8 ounce of gold per ton and 3.6 ounces of silver per ton. Drilling completed in 1987 indicates significant potential for additional ore. Hecla holds a large land position in the Republic area and in 1988 exploration activities will increase to a planned \$800,000 compared to \$475,000 in 1987.

During 1987, development activities at the **Lucky Friday** mine were significantly curtailed due to the temporary closure of the property. Exploration to the east will commence early in 1988 with \$900,000 budgeted for the year's work. Plans are to rehabilitate the 3050 Jutila drive and drill from its eastern extremity for the Lindroos vein.

In 1988, Hecla has budgeted \$231,000 for exploration on the **Escalante** property in an effort to find more ore.

At the **Golden Dome** project near Sierraville, California, initial drill results indicate gold-bearing mineralization of 1.3 million tons at .074 ounce of gold per ton. Hecla is presently assessing its plans for this property.

After an extensive 7-year exploration program at the **Consolidated Silver** mine near Osburn, Idaho, Hecla and its joint venture partner, Coeur d'Alene Mines Corporation, have elected to terminate the project due to disappointing results. The property will be returned to Consolidated Silver Corporation when the current lease agreement expires in early 1988.

At the **Caladay** project near Wallace, Idaho, Hecla will participate in a \$4 million program to explore the Silver Standard Fault, located on the Hornsilver-Peerless property, and the Boundary Vein, located on Caladay property immediately to the south-east of the Galena Mine. Hecla's share of the 20-month project will be approximately \$500,000. Hecla maintains a 12% overall ownership position in the Caladay project and a 30% net interest in the Hornsilver-Peerless property.

In October 1987, Acadia Mineral Ventures Limited of Toronto, Ontario, granted Hecla an option to acquire a 60% interest in its **Mooseland**, Nova Scotia, gold property. The Mooseland property is located 70 kilometers northeast of Halifax, Nova Scotia, in one of Canada's most active gold districts. Initial drilling by Acadia has identified two major gold-bearing zones. Hecla will review project data and make a decision in early 1988 on whether to proceed with a comprehensive feasibility study.

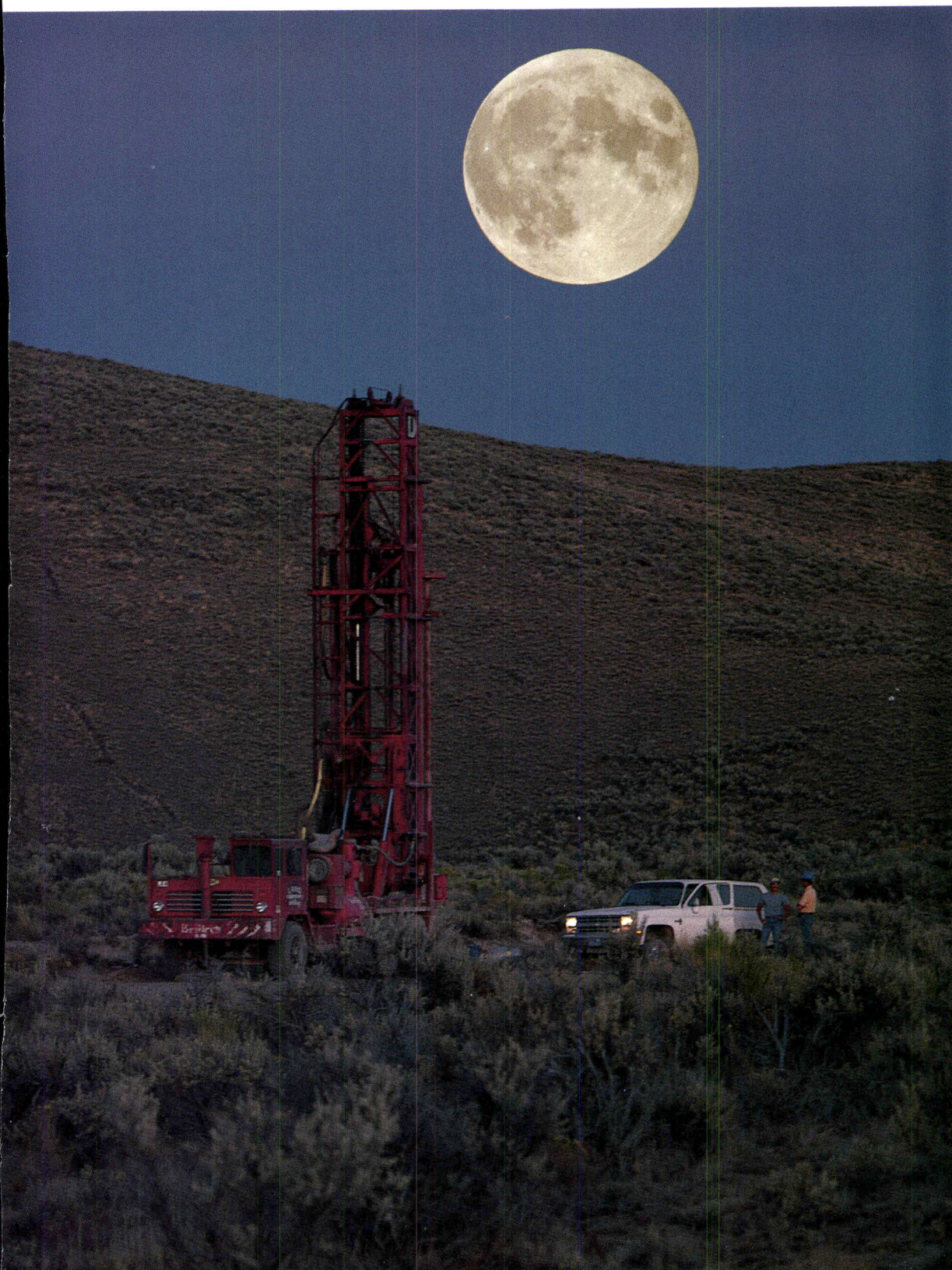
Through exploration expenditures, Hecla is earning a 50% interest in the **Baxter** gold property located on the Carlin trend in northeastern Nevada. The Carlin mineral trend is known to contain gold reserves in excess of 20 million ounces, largely controlled by Newmont Gold Company. The Baxter property consists of approximately 5,000 acres and is on trend with all other deposits. Hecla has encountered encouraging gold mineralization in a number of drill holes. Drilling will continue in 1988.

In early 1988, Hecla will take over exploration work on the large **Lake Zone** specialty metals deposit located adjacent to the Thor Lake beryllium property in northern Canada. Previous drilling by Highwood Resources Limited indicates that zirconium, rare earths, yttrium, tantalum and niobium are present in the deposit. The drilling program outlined for 1988 will better define the mineralized zone. ■





Above, an unusually rich core sample from the Golden Promise area of Hecla's Republic Unit gold mine. Left, drilling for gold on the Carlin trend in northeastern Nevada.



Opposite, near the Arctic Circle in northern Canada, the summer midnight sun provides enough light to inspect a helicopter for the next day's exploration activities.

At the Greens Creek Joint Venture a 9 mile access road from the harbor to the mine site was completed in 1987. Previously, all equipment and supplies had been air-lifted to the mine by helicopter.



New Mines. Two new precious metals mines, Greens Creek and Yellow Pine, will soon be producing for Hecla because of action taken in 1987. Initial marketing and metallurgical studies on the Thor Lake beryllium project were completed with favorable results, and Hecla acquired a controlling interest in Granduc Mines Limited.

Greens Creek. In early 1987, Hecla purchased a 28% interest in the Greens Creek Joint Venture on Admiralty Island near Juneau, Alaska. Managing partner in the project is Greens Creek Mining Company, a wholly-owned subsidiary of BP Minerals America. Other partners are CSX Oil and Gas Corporation and Exalas Resources Corporation, a subsidiary of Mitsubishi Corporation.

The currently known deposit contains an estimated 3.5 million tons of mineral-bearing material averaging approximately 24 ounces of silver per ton, .18 ounce of gold per ton, 9.7% zinc and 3.9% lead, with significant potential for discovery of additional reserves. At the planned production rate of 1,000 tons per day, Greens Creek will be the largest domestic silver mine and is expected to be one of the lowest-cost producers. Ore will be processed on site and concentrate will be shipped to overseas smelters from a marine terminal 9 miles from the mine site.

Construction of the concentrator and marine terminal ship-loading facility is scheduled to be completed late in 1988, and the mine is scheduled to start production in early 1989.

Yellow Pine Unit. In late 1987, Hecla signed a contract with Pioneer Metals Corporation of Vancouver, B.C., for Pioneer to process gold-bearing material from Hecla's property near Yellow Pine in central Idaho. The arrangement makes use of Pioneer's existing plant on a fixed-fee basis minimizing Hecla's capital expenditures.

The deposit contains an estimated 1.6 million tons of oxidized gold-bearing material averaging .077 ounce of gold per ton. Pioneer will process 400,000 tons per year over the expected four-year life of the project. Beginning in 1988, the operation is expected to produce approximately 25,000 ounces of gold per year for Hecla.

Not included in the Pioneer contract is Hecla's large sulfide gold deposit presently estimated at between 15 and 20 million tons containing approximately .1 ounce of gold per ton. A pre-feasibility study examining the economics of developing this ore body is presently underway.

Thor Lake Joint Venture. Initial studies to determine the economic feasibility of bringing the Thor Lake beryllium deposit into commercial production were completed in 1987 with encouraging results. Hecla will proceed with the expenditure of an additional \$2.5 million in 1988 for refinement of the chemical process, further market development and environmental baseline studies.

The Thor Lake property, owned by Highwood Resources Limited of Vancouver, B.C., is located approximately 100 kilometers southeast of Yellowknife, Northwest Territories. The deposit is known to contain approximately 1.8 million tons of .76% beryllium oxide reserves of which 507,000 tons grade 1.11% beryllium oxide and .17% yttrium oxide. Hecla can acquire a 50% interest in the property by bringing it into commercial production.

During 1987 workable chemical and metallurgical processes were developed in small scale pilot plant testing and a small amount of high-quality beryllium hydroxide was produced. Much of the additional funding scheduled for 1988 will provide for construction and operation of larger scale pilot plants designed to provide detailed engineering and process data needed for construction of full scale commercial facilities. Initial environmental baseline work at the mine site was begun in 1987 and will be continued in 1988.

A detailed market analysis completed during the year indicates significant growth potential for beryllium and beryllium products, and initial discussions with potential customers have been encouraging.

Other Interests. In early 1988, Hecla purchased an additional 1.1 million shares of Granduc Mines Limited common stock increasing its ownership of Granduc from 40% to 51%. The increased ownership effectively gives Hecla a 20% net interest in Granduc's promising Sulphurets gold/silver property located 56 kilometers northwest of Stewart, British Columbia.

Granduc and its joint-venture partner, Newhawk Gold Mines Ltd. (NPL) are presently in the midst of a \$5.4 million exploration project at the Sulphurets property. Drilling results from the first phase of the program identified 927,000 tons of mineralized material at an average cut grade of .31 ounces of gold per ton and 19.8 ounces of silver per ton. In 1987 surface drilling continued, a major underground exploration and development program was begun and construction of an access route to the site was completed. The joint venture expects to begin feasibility studies early in 1988.

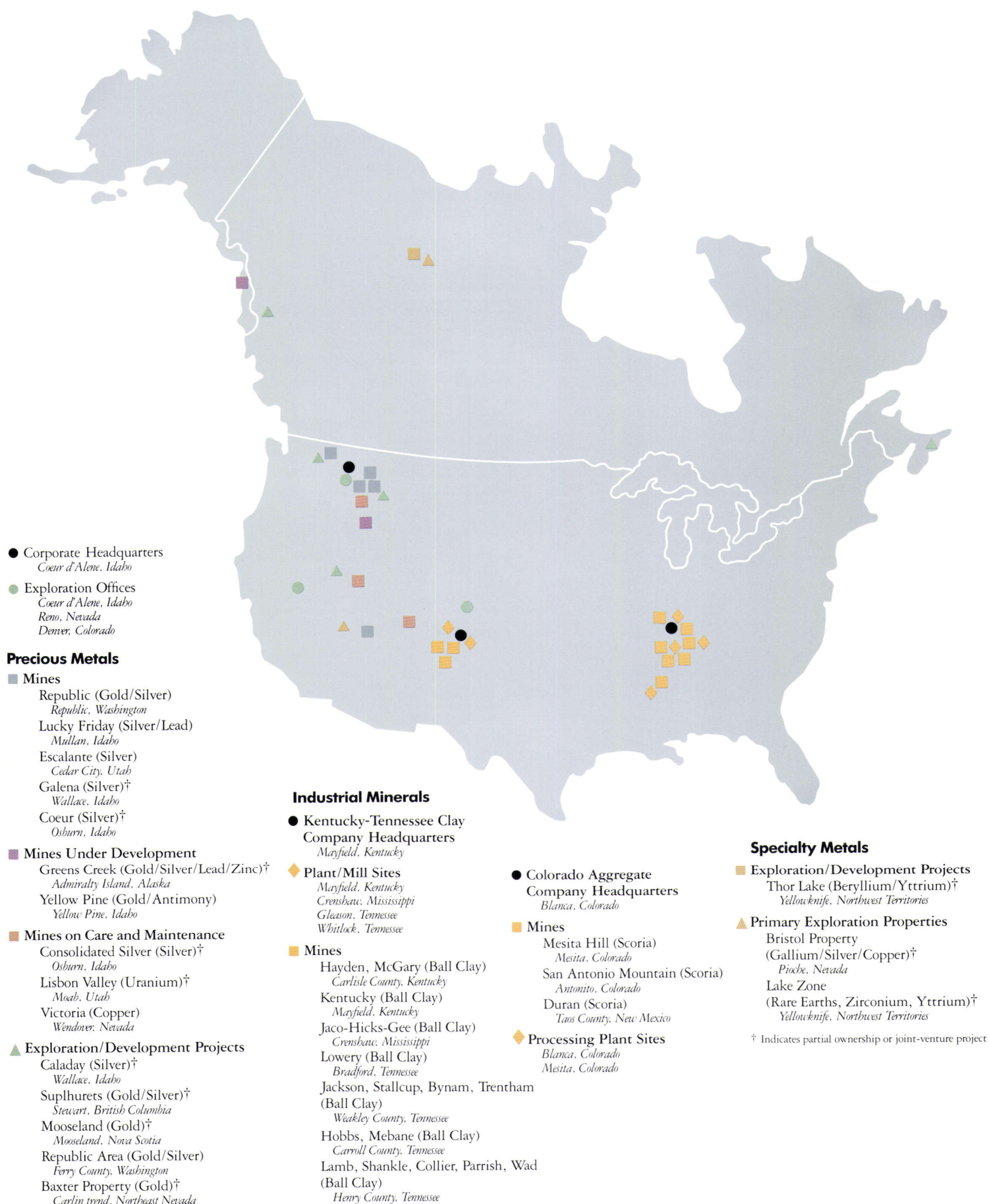
Lease agreements for the Florence-Queen silver property at Neihart, Montana, and the Revenue-Virginus silver property near Ouray, Colorado were terminated in 1987.

The Lisbon Valley uranium/vanadium mine near Moab, Utah was maintained on care-and-maintenance status pending recovery of uranium prices. The mine is equally owned by Hecla and Umetco Minerals Corporation, a subsidiary of Union Carbide Corporation. ■

Laboratory research and metallurgical testing completed in 1987 resulted in successful development of an ore treatment process for the Thor Lake beryllium deposit.



HECLA MINING COMPANY AND SUBSIDIARIES



OPERATIONAL DATA

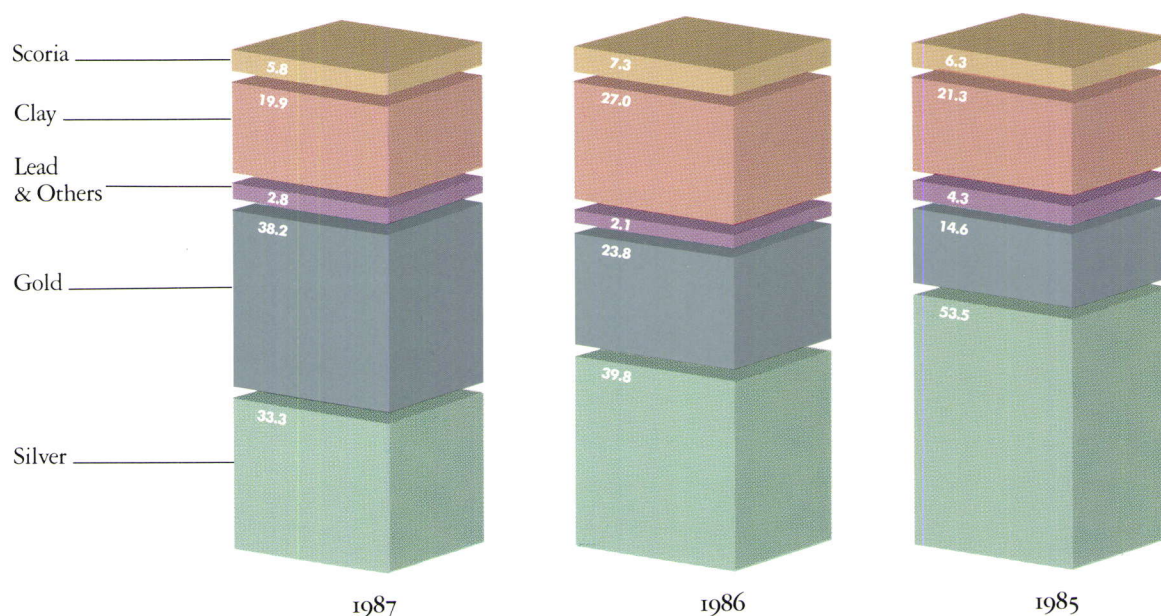
	1987 ⁽¹⁾	1986 ⁽¹⁾	1985	1984	1983
Combined Production From Operations					
Ore Milled (Tons)	444,576	479,272	666,897	699,673	712,633
Gold (Ounces)	71,516	40,554	41,710	27,218	20,607
Silver (Ounces)	3,795,507	4,370,389	7,925,824	8,445,412	9,115,842
Lead (Tons)	4,548	10,890	34,789	31,522	27,969
Zinc (Tons)	989	1,254	3,915	3,304	2,143
Copper (Tons)	289	346	749	742	1,129
Clay (Tons Shipped)	410,914	398,769	401,270	411,202	371,301
Scoria (Tons Shipped)	63,468	54,555	53,858	47,313	49,676

⁽¹⁾Commercial operations were suspended at the Lucky Friday Mine on April 11, 1986 and resumed on June 1, 1987.

Proven and Probable Mineral Reserves (December 31)

Mine	Year	Total Tons	Hecla Share (Tons)	Silver (Oz./Ton)	Gold (Oz./Ton)	Lead (Percent)	Zinc (Percent)	Copper (Percent)
Republic Unit	1987	514,800	514,800	3.6	.8	—	—	—
	1986	372,000	372,000	4.5	1.0	—	—	—
Lucky Friday Unit	1987	639,100	639,100	15.9	—	12.3	2.2	—
	1986	604,200	604,200	16.7	—	12.3	1.9	—
Escalante Unit	1987	586,600	586,600	7.9	—	—	—	—
	1986	917,700	917,700	9.4	—	—	—	—
Galena Unit	1987	1,197,900	149,700	16.1	—	2.1	—	.5
	1986	1,037,300	129,700	15.6	—	2.4	—	.5
Coeur Unit	1987	495,900	24,800	16.6	—	—	—	.8
	1986	699,800	35,000	19.8	—	—	—	.9

Total Sales Revenue by Product (By Percentage)



(dollars in thousands except for per-share amounts)

**Five-Year Selected
Financial Data**

Year Ended December 31,	1987	1986	1985	1984	1983
Total revenue	\$ 88,690	\$ 62,057	\$ 81,125	\$ 114,107	\$ 149,731
Income (loss) from continuing operations before extraordinary credit	\$ 10,336	\$ (21,232)	\$ (8,918)	\$ 7,629	\$ 30,494
Income from discontinued operation	—	—	4,694	—	—
Extraordinary credit	—	—	—	3,617	7,075
Cumulative effect of change in accounting for supplies inventory	—	—	—	846	—
Net income (loss)	\$ 10,336	\$ (21,232)	\$ (4,224)	\$ 12,092	\$ 37,569
Income (loss) per common share from con- tinuing operations before extraordinary items	\$0.38	\$ (0.79)	\$ (0.33)	\$0.29	\$1.16
Net income (loss) per common share	\$0.38	\$ (0.79)	\$ (0.16)	\$0.45	\$1.43
Total assets	\$170,716	\$140,281	\$170,932	\$190,305	\$222,100
Long-term debt—Notes and contracts payable	\$ 10,399 ⁽¹⁾	516 ⁽²⁾	(2)	(2)	9,930
Proceeds from sale of future production	\$ —	\$ —	\$ —	\$ —	\$ 13,079
Dividends—Per common share	\$0.05	\$0.05	\$0.20	\$0.20	\$0.17
Common shares issued	27,040,832	26,993,738	26,993,738	26,986,699	26,917,024
Shareholders of record	17,795	19,749	20,708	21,037	18,244*
Employees	795	653	945	1,055	709*

*Prior to Ranchers Exploration and Development Corporation acquisition.

⁽¹⁾Includes \$399,000 of long-term debt which is recorded in other noncurrent liabilities.

⁽²⁾Long-term debt is included in other noncurrent liabilities in 1986, 1985 and 1984.

**Selected Quarterly
Data (Unaudited)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1987					
Sales and other operating revenue	\$15,343	\$18,453	\$30,098	\$ 24,796	\$ 88,690
Operating income (loss)	\$ 2,116	\$ 5,275	\$15,718	\$ 11,074	\$ 34,183
Net income (loss)	\$ (3,485)	\$ (394)	\$ 9,612	\$ 4,603	\$ 10,336
Net income (loss) per share	\$(0.13)	\$(0.01)	\$0.35	\$0.17	\$0.38
1986					
Sales and other operating revenue	\$20,532	\$15,238	\$16,004	\$ 10,283	\$ 62,057
Operating income (loss)	\$ 4,445	\$ 3,154	\$ 3,819	\$ (920)	\$ 10,498
Net (loss)	\$ (1,849)	\$ (2,971)	\$ (1,991)	\$ (14,421)	\$ (21,232)
Net (loss) per share	\$(0.07)	\$(0.11)	\$(0.07)	\$(0.54)	\$(0.79)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations 1987 versus 1986

Net income for 1987 was \$10.3 million, or \$.38 per share, compared to a net loss of \$21.2 million, or \$.79 per share for 1986. Included in the 1986 loss was \$8.5 million (net of income tax benefit) of noncash write-downs and accrual of costs related principally to the carrying value of inactive mining properties and other real estate.

Sales of concentrates and products increased by \$26.2 million or 43% from 1986 to 1987 principally as a result of the increased gold production at the Republic Unit, increased metal prices and increased sales tonnage of industrial mineral products. The average price per ounce of gold and silver increased from \$368 and \$5.47 in 1986 to \$446 and \$7.01, respectively, in 1987. The overall average selling price of industrial mineral products increased by 2% in 1987 compared to 1986.

Operating costs and expenses increased by \$2.5 million or 5% from 1986 to 1987. Operating costs and expenses for the metal operations decreased principally as a result of the suspension of commercial production at the Lucky Friday mine from April 11, 1986 to June 1, 1987. Decreased operating costs and expenses at the Lucky Friday mine were partially offset by increased costs at the other metal operations principally due to increased production. Operating costs and expenses of the industrial minerals operations increased moderately from 1986 to 1987, also primarily as a result of increased production.

At the time of suspension of commercial operations at the Lucky Friday mine, the Company initiated other steps to preserve the Company assets and financial strength during the period of low metal prices. These steps included a salary rollback for salaried employees in the metal business segment and the corporate staff (the rollback was 15% for all officers of the rank of vice president or higher, and 10% for other salaried personnel, and a 10% reduction of the hourly wages at the Escalante Unit). With improved metal prices the salary and wage rollbacks were rescinded, effective September 1, 1987.

Other expenses decreased \$12.7 million from 1986 to 1987. The largest item causing the decrease was a non-recurring 1986 write-down of \$9.6 million relating to various mining properties and other real estate. A decrease of \$1.1 million in general and administrative expense in 1987 was primarily due to a reduction in salary and labor costs as a result of staff reductions, and the costs associated with the employment contracts of former Ranchers Exploration and Development Corporation executives. Exploration expense decreased from \$6.7 million in 1986 to \$5 million in 1987 primarily due to the termination of exploration activities at the Consolidated Silver Joint Venture and Mosquito Creek projects during 1986. Interest and commitment fees in 1987 approximated the amount expensed in 1986. However, in 1987, \$.7 million of interest costs was capitalized relating to the Company's share of the Greens Creek Joint Venture. No interest was capitalized in 1986. Depreciation, depletion and amortization were approximately the same for the two years.

Interest and other income increased by \$.4 million from 1986 to 1987 primarily as a result of the gain on disposal of certain property, plant and equipment acquired in the Ranchers merger. The 1987 loss on sale of investments of \$.9 million was due to a loss on sale of common stock investments, principally from the sale of 550,000 shares of Sunshine Mining Company common stock.

The income tax provision increased to \$2.4 million in 1987 from an income tax benefit of \$2.0 million in 1986, due to improved operating results in 1987 and related almost entirely to the accrual of the federal alternative minimum tax. The federal alternative minimum tax applies because the Company's net operating loss carryovers are not available to offset alternative minimum taxable income. The 1986 income tax benefit was primarily due to the reversal of previously established deferred taxes.

The Company adopted the accounting and reporting requirements of Statement of Financial Accounting Standards No. 87 — "Employer's Accounting for Pensions" for the year ended December 31, 1987, recognizing \$.2 million of pension income in 1987 compared to \$1.1 million of pension cost in 1986. The Company's expense associated with its stock option plans increased to \$1.2 million from \$14,000 in 1986.

**Results of Operations
1986 versus 1985**

The net loss increased to \$21.2 million for 1986 from a net loss of \$4.2 million for 1985. Included in the 1986 loss was \$8.5 million (net of income tax benefit) of noncash write-downs and accrual of costs related principally to the carrying value of inactive mining properties and other real estate. The major items included in the write-downs were a \$5.5 million (net of income tax benefit) write-off of the Company's interest in the Revenue-Virginus mine near Ouray, Colorado; the disposition of the remaining properties of the Ranchers Gold and Silver Exploration Program — 1980 (a limited partnership); the anticipated sale of the Company's interests in the Sherman mine near Leadville, Colorado and the Tungsten Queen mine in North Carolina; and other real estate adjustments. In 1985 the net loss was reduced by \$4.7 million of income from the discontinued operation of the Lakeshore partnership.

Sales of concentrates and products decreased by \$18.5 million (23.3%) from 1985 to 1986. The major reason for the decrease was that due to low metal prices, commercial operations were suspended at the Company's Lucky Friday mine on April 11, 1986. In 1985 the Lucky Friday mine was the largest domestic producer of silver. The decrease in the average silver price to \$5.47 per ounce in 1986 from \$6.14 per ounce in 1985, or 11%, and a decrease in the overall average selling price in industrial mineral products due to competitive considerations also had a negative effect on sales. Partially offsetting the downside factors was an increase in the average gold price to \$367.51 per ounce in 1986 from \$317.26 per ounce in 1985, or 16%.

Operating costs and expenses decreased by \$11.8 million (19%) from 1985 to 1986, primarily due to the suspension of commercial operations at the Lucky Friday mine. The decrease in costs was not proportional to the decrease in sales as certain costs continue at standby properties. At the Lucky Friday, experimental work continued on the new underhand longwall mining method. Work on the underhand longwall mining method has been successful and was essentially completed by the end of 1986. The Company plans to implement this new mining method when operations are resumed at the Lucky Friday mine. Overall operating costs at the other operations were normal and were slightly lower in 1986 as compared to 1985.

At the time of suspension of commercial operations at the Lucky Friday mine, other steps were initiated by the Company designed to preserve the Company assets and financial strength during this current period of low metal prices. These other steps included: (1) a salary rollback for salaried employees in the metal business segment and the corporate staff (the rollback was 15% for all officers of the rank of vice president or higher, and 10% for the other salaried personnel); (2) a reduction in personnel at the Hecla Shop and Gem Laboratory; (3) hourly wages at the Escalante mine in southwest Utah were reduced by 10%; and (4) operations at the Consolidated Silver Project near Osburn, Idaho were curtailed. Since August 1986, all operations at the Consolidated Silver Project have been suspended and the property placed on a standby basis. Another factor influencing the decrease in operating costs and expenses was divestiture of unprofitable properties that operated for a part of 1985.

Other expenses increased by \$5.9 million from 1985 to 1986. The largest item causing the increase was \$9.6 million for the reduction in the carrying value of mining properties as discussed above. Exploration costs were \$2 million less in 1986 as compared to 1985 and depreciation, depletion and amortization decreased by \$2.7 million. The decrease in depreciation, depletion and amortization was primarily due to the suspension of depreciation charges at the Lucky Friday mine based on the unit-of-production method. The increase of \$1 million in general and administrative expense was primarily due to costs associated with the employment contracts of former Ranchers Exploration and Development Corporation executives, and to the establishment of a new business development position in the Company.

Interest and other income decreased by \$1.6 million from 1985 to 1986, of which \$800,000 was in interest and dividend income and the remaining \$800,000 relating principally to the sale of surplus equipment and supplies. The decrease in interest and dividend income was primarily due to a decrease in interest rates and in the funds available for short-term investments. The gain on sales of investments decreased by \$500,000 from 1985 to 1986 due to no investments being sold in 1986.

The income tax benefit of \$2.0 million in 1986 is primarily due to the reversal of previously established deferred taxes associated with the 1986 write-down of the Revenue-Virginus property.

**Financial Condition
and Liquidity**

At the end of 1987, assets totalled approximately \$170.7 million and shareholders' equity \$131.3 million. Cash and cash equivalents increased by \$2.0 million to \$4.3 million at the end of 1987 from \$2.3 million at the end of 1986. The major sources of cash in 1987 were \$21.2 million from operations, \$10.0 million from bank borrowings and \$7.1 million from sale of common stock investments. The major uses of cash in 1987 were \$31.1 million for properties, plants and equipment (net of dispositions), \$4.1 million for working capital increases and \$1.3 million for dividends.

The primary reason for the increase in properties, plants and equipment in 1987 was the acquisition of a 28% interest in the Greens Creek Joint Venture near Juneau, Alaska, and the incurrence of related preproduction expenditures. Planned capital expenditures for 1988 are expected to be approximately \$26 million, principally for Hecla's share (28%) of the Greens Creek preproduction development and plant construction costs. Additionally, Hecla Mining Company of Canada Ltd. (Hecla Ltd.), a wholly-owned subsidiary of the Company, plans to expend approximately \$2.5 million to complete the evaluation and feasibility study of the Thor Lake specialty metals property. At that time, Hecla Ltd. may elect to proceed with the project with its joint-venture partner Highwood Resources Ltd. of Vancouver, British Columbia, Canada, and finance the construction of the mine and processing facilities.

In January 1988, the Company acquired an additional 11% stock ownership interest in Granduc Mines Limited (Granduc) for \$3,392,000. The additional acquisition increased the Company's stock ownership of Granduc to approximately 51%. Granduc holds a 40% working interest in the Sulphurets Joint Venture, a gold and silver mining venture located in northwestern British Columbia.

The planned capital expenditures are expected to be funded through internally generated funds and, as necessary, the bank credit line. The Company has in place a \$50 million bank credit agreement and at December 31, 1987, the outstanding bank borrowing under this line was \$10 million. Internally generated funds and the bank credit line are considered adequate to fund the Company's current and existing mid-term plans and objectives. The Company is reviewing other methods of financing which might be employed to meet long-term needs. The annual maturities on the Company's long-term debt for the years 1989 through 1992 are disclosed in Footnote 6 to the Consolidated Financial Statements on page 28 of this Annual Report.

At December 31, 1987, net operating loss carryforwards are available to offset future regular taxable income, and investment tax credit carryforwards are available to offset future income taxes payable. The Tax Reform Act of 1986 significantly impacts the Company. The use of net operating loss carryforwards are not available to offset alternative minimum taxable income, and usage of investment tax credit carryforwards are limited. In December 1987, Statement of Financial Accounting Standards No. 96—"Accounting for Income Taxes" was issued. The effects of adopting the provisions of the Statement cannot be reasonably estimated at this time, but may require the recognition of a deferred tax liability associated with the alternative minimum tax. See Footnote 5 in the Notes to Consolidated Financial Statements on page 27 of this Annual Report for additional information regarding these matters.

The discovery, development and acquisition of mineral properties are in many instances unpredictable events. Future metal prices, the success of exploration programs and other property transactions can have a significant impact on the need for capital. One of the primary reasons for the maintenance of the bank credit line is to have funds readily available to allow the Company flexibility in structuring mineral acquisitions or ventures. The Company believes it has the flexibility to adjust its activities to cope with changing economic conditions.

**Report of
Certified Public
Accountants**

The Board of Directors and Shareholders
Hecla Mining Company

We have examined the consolidated balance sheets of Hecla Mining Company and consolidated subsidiaries as of December 31, 1987 and 1986, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Hecla Mining Company and consolidated subsidiaries at December 31, 1987 and 1986, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles consistently applied during the period, except for the change in 1987, with which we concur, in the method of accounting for pension costs as described in Note 8 to the financial statements.

Spokane, Washington
February 2, 1988

COOPERS & LYBRAND

CONSOLIDATED BALANCE SHEETS

December 31, 1987 and 1986 (dollars in thousands)		1987	1986
Assets			
Current assets:			
Cash and cash equivalents	\$ 4,315	\$ 2,331	
Accounts and notes receivable	13,662	6,274	
Inventories (Note 2)	12,239	12,843	
Other current assets	1,243	673	
Total current assets	31,459	22,121	
Investments (Note 3)	13,025	12,063	
Properties, plants and equipment, net (Note 4)	122,492	102,222	
Other noncurrent assets	3,740	3,875	
Total assets	\$170,716	\$140,281	
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 8,161	\$ 5,688	
Accrued taxes	1,620	864	
Total current liabilities	9,781	6,552	
Notes payable to banks (Note 6)	10,000	—	
Deferred income taxes (Note 5)	11,949	7,308	
Deferred revenue	2,932	3,213	
Other noncurrent liabilities	4,762	5,046	
Total liabilities	39,424	22,119	
Commitments and contingencies (Notes 4 and 7)			
Shareholders' Equity			
Preferred stock, 25¢ par value, authorized 5,000,000 shares, none issued			
Common stock, 25¢ par value, authorized 50,000,000 shares, issued; 1987 — 27,040,832 and 1986 — 26,993,738 (Note 9)	6,760	6,748	
Capital surplus	53,286	52,311	
Earnings retained in the business (Note 6)	80,292	71,306	
Net unrealized loss on marketable equity securities (Note 3)	(8,475)	(11,944)	
Less common stock reacquired, at cost; 1987 — 38,539 shares, 1986 — 23,836 shares	(571)	(259)	
Total shareholders' equity	131,292	118,162	
Total liabilities and shareholders' equity	\$170,716	\$140,281	

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 1987, 1986 and 1985
(dollars and shares in thousands, except for per-share amounts)

	1987	1986	1985
Sales of concentrates and products	\$87,146	\$ 60,935	\$79,434
Operating costs and expenses (exclusive of items shown separately below)	52,963	50,437	62,279
Operating income	34,183	10,498	17,155
Interest and other income	1,544	1,122	2,691
Gain (loss) on sale of investments	(883)	—	454
	34,844	11,620	20,300
Other expenses:			
General and administrative	5,879	6,986	5,972
Exploration	4,952	6,744	8,744
Interest and commitment fees, net	433	392	489
Depreciation, depletion and amortization	10,887	11,112	13,764
Reduction in carrying value of mining property (Note 4)	—	9,642	—
Total other expenses	22,151	34,876	28,969
Income (loss) before income taxes	12,693	(23,256)	(8,669)
Income tax provision (benefit) (Note 5)	2,357	(2,024)	249
Income (loss) from continuing operations	10,336	(21,232)	(8,918)
Income from discontinued operation (Note 11)	—	—	4,694
Net income (loss) (Note 8)	<u>\$10,336</u>	<u>\$(21,232)</u>	<u>\$ (4,224)</u>
Net income (loss) per share (Note 8):			
Continuing operations	\$0.38	\$(0.79)	\$(0.33)
Discontinued operation	—	—	0.17
	<u>\$0.38</u>	<u>\$(0.79)</u>	<u>\$(0.16)</u>
Dividends per share	<u>\$0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.20</u>
Weighted average number of common shares outstanding	<u>26,990</u>	<u>26,970</u>	<u>26,974</u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1987, 1986 and 1985
(dollars in thousands)

		1987	1986	1985
Sources (uses) of Cash from Operations	Continuing operations:			
	Income (loss)	\$ 10,336	\$(21,232)	\$ (8,918)
	Noncash elements included in net income (loss):			
	Depreciation, depletion and amortization	10,887	11,112	13,764
	Deferred income tax provision (benefit)	—	(2,176)	—
	Reduction in carrying value of mining property	—	9,642	—
	Cash provided (used) by continuing operations	21,223	(2,654)	4,846
	Income from discontinued operation (Note 11)	—	—	4,694
	Cash provided (used) by operations	21,223	(2,654)	9,540
Working Capital, Exclusive of Cash and Current Debt	Accounts and notes receivable	(7,388)	6,447	(378)
	Inventories	604	46	2,695
	Other current assets	(570)	(175)	51
	Accounts payable and accrued expenses	2,473	(1,728)	240
	Accrued taxes	756	34	(4,550)
	Cash provided (used) by working capital	(4,125)	4,624	(1,942)
Investment Activities	Investments, net	7,148	(570)	964
	Properties, plants and equipment, net	(31,138)	(6,635)	(8,142)
	Other noncurrent assets	116	75	1,575
	Cash used for investment activities	(23,874)	(7,130)	(5,603)
	Dividends declared and paid	(1,350)	(1,349)	(5,391)
	Internal cash flow (use)	(8,126)	(6,509)	(3,396)
Financing Activities	Notes payable to banks	10,000	—	—
	Deferred revenue	(281)	(553)	430
	Other noncurrent liabilities and deferred income taxes	(284)	654	(1,171)
	Common stock and treasury stock sold under stock option plans (Note 9)	987	—	—
	Acquisition of treasury stock	(312)	(1)	(133)
	Other shareholders' equity transactions	—	—	(3)
	External cash flow (use)	10,110	100	(877)
	Net change in cash and cash equivalents	1,984	(6,409)	(4,273)
	Cash and cash equivalents, beginning of year	2,331	8,740	13,013
	Cash and cash equivalents, end of year	\$ 4,315	\$ 2,331	\$ 8,740

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1987, 1986 and 1985 (dollars and shares in thousands)	Common Stock		Capital Surplus	Earnings Retained in the Business	Treasury Stock	Net Unrealized Loss on Marketable Equity Securities
	Shares	Amount				
Balances, December 31, 1984	26,987	\$6,747	\$52,315	\$103,502	\$(125)	\$ (5,555)
Net (loss)				(4,224)		
Cash dividends				(5,391)		
Net change in unrealized loss on mar- ketable equity securities (Note 3)						(3,293)
Acquisition of treasury stock					(133)	
Other	7	1	(4)			
Balances, December 31, 1985	26,994	6,748	52,311	93,887	(258)	(8,848)
Net (loss)				(21,232)		
Cash dividends				(1,349)		
Net change in unrealized loss on mar- ketable equity securities (Note 3)						(3,096)
Acquisition of treasury stock					(1)	
Balances, December 31, 1986	26,994	6,748	52,311	71,306	(259)	(11,944)
Net income				10,336		
Cash dividends				(1,350)		
Net change in unrealized loss on mar- ketable equity securities (Note 3)						3,469
Stock issued under stock option plans (Note 9)	47	12	975			
Acquisition of treasury stock					(312)	
Balances, December 31, 1987	27,041	\$6,760	\$53,286	\$ 80,292	\$(571)	\$ (8,475)

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HECLA MINING COMPANY AND WHOLLY-OWNED SUBSIDIARIES.

Note 1: Summary of Significant Accounting Policies

A. *Company's Business* Hecla and its wholly-owned subsidiaries are engaged in mining and mineral processing. Sales of metal concentrates and products are made principally to custom smelters and commodity dealers. Industrial minerals are sold principally to manufacturers and wholesalers. Sales to significant metal customers, as a percentage of total sales of concentrates and products, were as follows:

	1987	1986	1985
Custom smelter	14.1%	10.3%	12.1%
Custom metal traders:			
Customer A	36.8%	13.7%	23.2%
Customer B	—	22.4%	14.0%
Customer C	7.0%	8.5%	15.4%
Customer D	15.5%	10.6%	6.2%

B. *Basis of Consolidation* The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its proportionate share of the accounts of the joint ventures in which it participates. All significant intercompany transactions and accounts are eliminated.

C. *Inventories* Inventories are stated at the lower of average cost or estimated net realizable value.

D. *Investments* The Company follows the equity method of accounting for nonconsolidated subsidiaries and investments in common stock of operating companies 20% to 50% owned. Investments in nonoperating companies that are not intended for resale or are not readily marketable are valued at the lower of cost or net realizable value. The carrying value of marketable equity securities is based on the lower of cost or quoted market value. The cost of investments sold is determined by specific identification.

E. *Properties, Plants and Equipment* Properties, plants and equipment are stated at cost. Maintenance, repairs and renewals are charged to operations. Betterments of a major nature are capitalized. When assets are retired or sold, the costs and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations. Idle facilities, placed on a standby basis, are carried at the lower of net book value or estimated net realizable value.

Management of the Company reviews the net carrying value of all facilities, including idle facilities, on a regular, periodic basis. These reviews consider, among other factors, (1) the net realizable value of each major type of asset, on a property-by-property basis, to reach a judgment concerning possible permanent impairment of value and any need for a write-down in asset value, (2) the ability of the Company to fund all care, maintenance and standby costs, (3) the status and usage of the assets, while in a standby mode, to thereby determine whether some form of amortization is appropriate, and (4) current projections of metal prices that affect the decision to reopen or make a disposition of the assets.

Depreciation is computed using straight-line and declining-balance methods based on the estimated useful lives of the assets, and the unit-of-production method. Depletion is computed using the unit-of-production method.

F. *Mine Exploration and Development* Exploration costs are charged to income as incurred, as are normal development costs at operating mines. Major mine development expenditures at operating properties and at new mining properties not yet producing are capitalized.

G. *Reclamation of Mining Areas* Minimum standards for mine reclamation have been established by various governmental agencies which affect certain operations of the Company. A reserve for mine reclamation has been established for restoring certain abandoned and currently disturbed mining areas, based upon estimates of cost to comply with existing reclamation standards.

H. *Income Taxes* The benefits of investment tax credits are recognized on a flow-through basis in the year they are available to reduce the income tax provision.

I. *Net Income (Loss) Per Share* Net income (loss) per share is based on the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each reporting period unless the common stock equivalents are anti-dilutive. Due to the net losses in 1985 and 1986, common stock equivalents are anti-dilutive and therefore have been excluded from the computation.

J. *Revenue Recognition* Sales of metal products sold directly to smelters are recorded when they are received at the smelter, at estimated metal prices. Recorded values are adjusted periodically and upon final settlement. Metal in products tolled (rather than sold to smelters) is sold under contracts for future delivery; such sales are recorded at contractual amounts when products are available to be processed by the smelter or refinery. Sales of industrial minerals are recognized as the minerals are delivered.

K. *Deferred Revenue* Deferred revenue includes income to be recognized on the sale of certain mineral properties. Revenue is recognized when cash proceeds exceed the Company's net book value of the assets sold and the collectibility of the remaining payments is assured.

L. *Interest Expense* Interest costs incurred during the construction of qualifying assets are capitalized as part of the asset cost. During 1987, of the total interest costs incurred of \$1,101,000, \$668,000 was capitalized as part of qualifying assets. No interest was capitalized in 1986 and 1985.

M. *Reclassifications* Certain prior years' consolidated financial statement amounts have been reclassified to conform to the 1987 presentation. These reclassifications had no effect on the net loss or earnings retained in the business as previously reported.

Note 2: Inventories

Inventories consist of the following (in thousands):	December 31,	
	1987	1986
Concentrates and metals in transit and other products	\$ 5,139	\$ 5,691
Industrial minerals products	2,920	2,837
Materials and supplies	4,180	4,315
	<u>\$12,239</u>	<u>\$12,843</u>

Note 3: Investments

Investments consist of the following components (in thousands):

	Carrying Value	Cost	Market Value
December 31, 1987			
Marketable equity securities	\$ 7,155	\$15,630	\$7,155
Other investments	5,870	5,870	
Total	<u>\$13,025</u>	<u>\$21,500</u>	
December 31, 1986			
Marketable equity securities	\$ 6,662	\$23,247	\$6,662
Other investments	5,401	5,401	
Total	<u>\$12,063</u>	<u>\$28,648</u>	

At December 31, 1987, the portfolio of marketable equity securities includes gross unrealized gains of approximately \$2,000 and gross unrealized losses of approximately \$8,477,000 (of which approximately \$8,349,000 is attributable to the Company's ownership of Sunshine Mining Company common stock). The net unrealized loss on marketable equity securities, that is a component of December 31, 1986 stockholders' equity, was reduced by deferred tax benefits of approximately \$4,641,000. As of December 31, 1987, 1984 capital gains are no longer available to offset unrealized capital losses. Therefore, there is no income tax effect associated with the unrealized loss at December 31, 1987 on marketable equity securities. The other investments are principally large blocks of common and preferred stock in several mining companies, and investments in various mining ventures. These securities are generally restricted as to trading or marketability although some of the shares are frequently traded on the over-the-counter market in Spokane, Washington. At December 31, 1987 and 1986, the shares of some of these companies that were

traded on this market were quoted at values approximating or exceeding the Company's cost basis.

In January 1988, the Company acquired an additional 11% ownership interest in Granduc Mines Limited (Granduc) for \$3,392,000. The additional acquisition increased the Company's ownership of Granduc to approximately 51%. Granduc holds a 40% working interest in the Sulphurets Joint Venture, a gold and silver mining venture located in northwestern British Columbia.

Note 4: Properties, Plants and Equipment

The major components of properties, plants and equipment are (in thousands):	December 31,	
	1987	1986
Mining properties	\$ 28,189	\$ 10,213
Deferred development costs	55,113	52,436
Plants and equipment	111,933	112,364
Land	5,872	6,065
	201,107	181,078
Less accumulated depreciation, depletion and amortization	78,615	78,856
	<u>\$122,492</u>	<u>\$102,222</u>

Based on its periodic reviews of the status of various mining properties and investments, the Company determined in 1986 that certain adjustments were appropriate to properly reflect the estimated net realizable values. The major portion of the Company's 1986 write-down of \$9,642,000 related to the Company's interest in the Revenue-Virginus mine. This interest was acquired as part of the merger with Ranchers Exploration and Development Corporation. The Revenue-Virginus lease was terminated during 1987. The remainder of the 1986 write-down reflects adjustments for closing out Ranchers Gold and Silver Exploration Program—1980 (a limited partnership) and the anticipated sales, at less than carrying values, of the Company's interests in the Sherman mine near Leadville, Colorado, and the Tungsten Queen mine in North Carolina. During 1987, both the Sherman and Tungsten Queen mines were sold.

The net book value of the major mining properties of the Company that were on a standby or idle basis at December 31, 1987 and 1986 is approximately \$8,129,000 and \$50,961,000, respectively. Included in the 1986 amount for properties on a standby or idle basis is \$41,892,000 for the Lucky Friday mine which suspended commercial operations on April 11, 1986 but, with improved metal prices, resumed operations on June 1, 1987.

In May 1987, the Company acquired a 28% interest in the Greens Creek Joint Venture for \$19.6 million. During the spring of 1987, development of the mine was commenced. The Company is committed to fund its proportionate share of approximately \$73.0 million of estimated remaining preproduction costs. Present plans envision commencement of commercial production in early 1989.

Note 5: Income Taxes

Major components of the Company's income tax provision (benefit) are (in thousands):	1987		
	1987	1986	1985
Currently payable:			
Federal	\$2,079	\$ —	\$ —
State	278	152	249
Total current	2,357	152	249
Deferred:			
Benefit of reversal of previously established deferred income taxes	—	(2,176)	—
	<u>\$2,357</u>	<u>\$(2,024)</u>	<u>\$249</u>

The annual tax provision is different from the amount which would be provided by applying the statutory federal income tax rate to the Company's pretax income (loss). The reasons for the difference are as follows (in thousands):

	1987	%	1986	%	1985	%
Computed "statutory" provision (benefit)	\$ 5,077	40%	\$(10,698)	(46)%	\$(3,988)	(46)%
Effect of nonutilization of net operating losses			8,522	36	3,988	46
Effect of adjustments associated with the alternative minimum tax	(2,254)	(18)				
Investment tax credits	(688)	(5)				
State income taxes, net of federal tax benefit	222	2	152	1	249	3
	\$ 2,357	19%	\$ (2,024)	(9)%	\$ 249	3 %

At December 31, 1987, the Company has tax basis net operating loss carryovers available to offset future regular taxable income, and investment tax credit carryovers (which amounts are shown net of a 35% reduction attributable to carryforward periods) available to offset future regular or alternative federal income taxes payable. These carryovers expire as follows (in thousands):

	Net Operating Losses	Investment Tax Credits
1995		\$ 109
1996	\$11,193	20
1997	7,419	1,481
1998		500
1999		341
2000	14,959	221
2001	17,913	115
	\$51,484	\$2,787

All of the Company's net operating loss carryovers are attributed to preference related items, and therefore are not available to offset alternative minimum taxable income. However, they are available to offset future regular taxable income. During the year ended December 31, 1987, an alternative minimum tax credit of approximately \$475,000 was generated. This credit will be available to offset future regular income taxes payable.

For financial statement purposes, the Company has unused net operating loss carryovers of approximately \$19,600,000, and investment tax credit carryovers (net of a 35% reduction attributable to carryforward periods) of approximately \$1,365,000.

In December 1987, Statement of Financial Accounting Standards No. 96—"Accounting for Income Taxes," was issued. This Statement amends or supercedes most prior authoritative literature on the subject, and has as its basic objective the recognition of current and deferred income tax liabilities or assets based upon all events that have been recognized in the financial statements as measured by the provisions of enacted tax laws. The Statement is effective for fiscal years beginning after December 15, 1988, and allows for restatement of prior financial statements, but does not require their restatement. The Company has not applied the provisions of this Statement in the 1987 financial statements, but intends to apply these provisions effective January 1, 1988, without restating prior financial statements. The effects of adopting the provisions of the Statement cannot be reasonably estimated at this time, but may require the recognition of a deferred tax liability associated with the alternative minimum tax.

Note 6: Line of Credit

Hecla has a \$50 million unsecured revolving credit and term loan agreement with a group of five major banks. The credit agreement provides for revolving credits through December 31, 1988 which can then be converted into four-year term notes payable in equal quarterly installments. The interest rate on revolving credit loans is the agent bank's average prime commercial rate with options to borrow at the London Interbank Offered Rate (LIBOR) plus $\frac{1}{2}\%$, or a "CD Base Rate" plus $\frac{3}{8}\%$ as in effect from time to time. No compensating balances are required. A commitment fee is payable quarterly at the rate of three-eighths of 1% per annum on the average daily unused portion of the revolving credit. The credit agreement contains certain restrictive covenants concerning the maintenance of certain financial statement ratios and limits the amount of dividends or other distributions. At December 31, 1987, approximately \$74 million is available for dividends and other distributions under the terms of the credit agreement. As of December 31, 1987, outstanding borrowings under the agreement were \$10,000,000, at an interest rate of 8.845%.

Maturities of notes payable to banks at December 31, 1987 are:

1989	\$ 2,500,000
1990	2,500,000
1991	2,500,000
1992	2,500,000
	<hr/>
	\$10,000,000

Note 7: Contingencies

Various legal actions and claims are pending against the Company and certain of its subsidiaries. The Company has been notified by the U.S. Environmental Protection Agency (EPA) that it is a potentially responsible party with respect to one EPA designated priority list site located in the State of Colorado and a second site proposed for listing in the State of Utah. The Company also has been named as a third party defendant in two separate lawsuits originally brought by the State of Colorado to recover natural resource damages and response costs under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) at two Colorado mining sites. The Company is also named as one of a number of defendants in a suit brought under CERCLA by the United States Government to recover response costs at one of the sites subject to the State of Colorado litigation. The Company is also named as a defendant in a lawsuit brought by private party plaintiffs claiming damages resulting from operations conducted by the Company's predecessor in interest, Ranchers Exploration and Development Corporation, at an Arizona mine site. Although the ultimate disposition of these actions is not presently determinable, it is the opinion of Hecla's management that the outcome of the suits and proceedings mentioned, and other miscellaneous litigation and proceedings now pending, will not have a material adverse effect on the operations or the financial condition of Hecla and its consolidated subsidiaries.

Note 8: Employee Benefit Plans

The Company and its wholly-owned subsidiaries have pension plans covering substantially all employees. One plan covering eligible salaried and hourly employees provides retirement benefits and is based on the employee's compensation during the highest 36 months of the last 120 months before retirement. Two other pension plans covering eligible hourly employees provide benefits of stated amounts for each year of service. It is the Company's policy to make contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus such additional amounts, if any, as the Company and its actuarial consultants consider appropriate. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Plan assets for these plans consist principally of equity securities, insurance contracts and corporate and U.S. government obligations.

Effective January 1, 1987, the Company prospectively adopted the provisions of Statement of Financial Accounting Standards No. 87—"Employers' Accounting for Pensions." The effect of the adoption was to reduce 1987 pension cost by approximately \$917,000, and to increase net income and net income per share

by \$761,000 and \$0.03, respectively. Net periodic pension cost (credit) for the plans consisted of the following in 1987 (in thousands):

Service cost	\$ 579
Interest cost	1,602
Return on plan assets	(1,950)
Amortization of transition asset	(440)
Net pension cost (credit)	\$ (209)

The Company's pension costs were approximately \$1,098,000 and \$1,371,000 for 1986 and 1985, respectively, and were determined under the provisions of previous accounting principles.

The following table sets forth the funded status (in thousands) of the plans and amounts recognized in the Company's consolidated balance sheet at December 31, 1987:

Actuarial present value of benefit obligations:	
Vested benefits	\$15,104
Nonvested benefits	811
Accumulated benefit obligation	15,915
Effect of projected future salary and wage increases	3,349
Projected benefit obligations	\$19,264
Plan assets in excess of projected benefit obligation	\$ 4,696
Unrecognized net gain	641
Unrecognized net obligation (asset) at January 1, 1987	(6,199)
Pension liability recognized in consolidated balance sheet	\$ 862

The projected benefit obligation was determined using an assumed discount rate of 8.5% and an assumed long-term compensation increase rate of 6.0%. The assumed long-term rate of return on plan assets was 8.0%.

The actuarial present value of accumulated plan benefits and the net assets available for benefits as of December 31, 1986 were \$19,073,000 and \$22,651,000, respectively. The range of average assumed rates of return used in determining the prior year's actuarial present value of accumulated plan benefits was 6.5%-7.0%.

In November 1986, the Company offered a special early retirement option to participants in the Hecla pension plan with no actuarial reduction in their accrued benefit for early retirement. The special early retirement program is being funded out of general corporate funds until the participant reaches normal retirement age or age 60 with 30 years of service, at which time payments will be made by the pension trust. Approximately \$402,000 was accrued in December, 1986 as the estimated liability for those eligible employees who elected to participate in the program.

In addition to providing pension benefits, the Company provides certain life insurance, medicaid and medicare supplemental benefits. Substantially all of the Company's employees may become eligible for the life insurance benefits if they reach normal retirement age while working for the Company. The medicaid and medicare supplement benefits apply only to those employees who retired prior to October 1, 1982. The cost of these life insurance and health care benefits is recognized as an expense when payments are made and totalled approximately \$256,000, \$76,000 and \$113,000 in 1987, 1986 and 1985, respectively.

The Company has a Deferred Compensation Plan which permits eligible officers and directors to defer a portion of their compensation. The deferred compensation, which together with Company matching amounts and accumulated interest is accrued but unfunded, is distributable in cash after retirement or

termination, and at December 31, 1987 and 1986, amounted to approximately \$1,475,000 and \$1,356,000, respectively. The Company has insured the lives of certain officers, who participate in the deferred compensation program, to assist in the funding of the deferred compensation liability. The Company is the owner and beneficiary of the insurance policies.

During 1986, the Company implemented a salaried employees' Capital Accumulation Plan which is available to all salaried employees after completion of one year of service. The employee may contribute from 2% to 10% of their compensation to the Plan. The Company makes a matching contribution of 25% of an employee's contribution up to, but not exceeding, 5% of the employee's earnings. The Company's contributions for 1987 and 1986 were approximately \$68,000 and \$20,000, respectively.

Note 9: Stock Option Plans

The Company has two stock option plans which were adopted in 1982 and 1987. The 1982 plan permits options to qualify as "Incentive Stock Options" under the Internal Revenue Code. Under the 1982 plan, options have been granted to certain officers and employees to purchase common stock at a price not less than the fair market value at the date of grant. All of the outstanding incentive stock options were granted in tandem with a corresponding number of stock appreciation rights. These rights entitle the recipient to payment for the increase in the market value of the stock above the option price, at the date of exercise. Half of this payment is made in cash and half in the form of newly issued common stock. The exercise of either rights or options serves to cancel the other. Options under the 1982 plan are immediately exercisable for periods of up to three years. Under the 1982 plan, 109,800 shares are available for grant in the future.

The 1987 plan, a nonstatutory plan, provides that options may be granted to certain officers and employees to purchase common stock at a price of not less than fifty percent of the fair market value at the date of grant. The 1987 plan also provides that options may be granted with a corresponding number of stock appreciation rights and/or tax offset bonuses to assist the optionee in paying the income tax liability that may exist upon exercise of the options. All of the outstanding stock options under the 1987 plan were granted with an associated tax offset bonus with the exception of one grant for 7,500 shares which was granted in tandem with a corresponding number of stock appreciation rights and tax offset bonuses.

Outstanding options under the 1987 plan are immediately exercisable for periods up to ten years. Under the 1987 plan, 392,500 shares are available for grant in the future.

The aggregate amounts charged to expense in connection with the plans were \$1,177,000, \$14,000 and \$0 in 1987, 1986, and 1985, respectively.

Transactions concerning stock options are summarized as follows:

	Incentive Stock Option Plan		Nonstatutory Stock Option Plan		Total Shares
	Shares	Price	Shares	Price	
Outstanding, December 31, 1984	38,500	\$16.37-\$18.62	—		38,500
Year ended December 31, 1985:					
Granted	30,400	15.62- 16.50			30,400
Outstanding, December 31, 1985	68,900	15.62- 18.62	—		68,900
Year ended December 31, 1986:					
Granted	61,100	10.12- 13.75	—		61,100
Expired	(9,450)	16.37- 18.62	—		(9,450)
Outstanding, December 31, 1986	120,550	10.12- 16.50	—		120,550
Year ended December 31, 1987:					
Granted	41,100	12.75	107,500	\$10.37	148,600
Exercised	(136,728)	10.12- 16.50	—		(136,728)
Outstanding, December 31, 1987	24,922	\$10.12-\$13.75	107,500	\$10.37	132,422

Note 10: Business Segments

(in thousands):	December 31,		
	1987	1986	1985
Net sales to unaffiliated customers:			
Metals	\$ 64,774	\$ 40,002	\$ 57,517
Industrial minerals	22,372	20,933	21,917
	<u>\$ 87,146</u>	<u>\$ 60,935</u>	<u>\$ 79,434</u>
Operating income:			
Metals	\$ 27,575	\$ 3,624	\$ 9,780
Industrial minerals	6,608	6,874	7,375
	<u>\$ 34,183</u>	<u>\$ 10,498</u>	<u>\$ 17,155</u>
Capital expenditures:			
Metals	\$ 30,574	\$ 3,328	\$ 1,833
Industrial minerals	1,556	602	2,168
General corporate assets	195	3,047	5,258
	<u>\$ 32,325</u>	<u>\$ 6,977</u>	<u>\$ 9,259</u>
Depreciation, depletion and amortization:			
Metals	\$ 6,732	\$ 7,017	\$ 9,626
Industrial minerals	3,270	3,082	3,568
General corporate assets	885	1,013	570
	<u>\$ 10,887</u>	<u>\$ 11,112</u>	<u>\$ 13,764</u>
Identifiable assets:			
Active metals facilities	\$ 90,723	\$ 20,001	\$ 72,391
Industrial minerals business	28,623	28,718	30,344
General corporate assets	43,241	40,601	52,644
Idle and standby metal facilities	8,129	50,961	15,553
	<u>\$170,716</u>	<u>\$140,281</u>	<u>\$170,932</u>

Operating costs and identifiable assets of each segment are those that are directly identified with those operations. General corporate assets consist primarily of cash, receivables, investments and corporate property, plant and equipment.

Note 11: Discontinued Operation

Hecla and El Paso Natural Gas Company (El Paso) were the partners in a venture that was formed to operate the Lakeshore copper mine in Arizona. Hecla wrote off its investment in the mine property in 1978. The partnership had continuing commitments under power supply agreements that expired in October 1985. Simultaneously, the partnership was terminated and the remaining assets were distributed to the partners. Accordingly, Hecla eliminated its net reserve for discontinued operations and recognized \$4,694,000 of income from discontinued operations in 1985.

CORPORATE INFORMATION

Directors

Arthur Brown^{1, 4}

Chairman of the Board, President and Chief Executive Officer Hecla Mining Company

John E. Clute^{1, 5}

Senior Vice President, Human Resources and General Counsel Boise Cascade Corporation

John M. Dahl^{2, 3}

Consultant; Retired Vice Chairman and Chief Executive Officer J. R. Simplot Company

Leland O. Erdahl^{3, 5}

President Stolar, Inc.; President Albuquerque Uranium Corp.; former President Ranchers Exploration and Development Corporation; Trustee, Freedom Investment Trust; Director Canyon Resources Corporation; Director Coca Mines, Inc.

William A. Griffith^{1, 4, 5}

Former Chairman of the Board and Chief Executive Officer Hecla Mining Company; President, Chief Executive Officer and Director Granduc Mines Limited; Director The Coeur d'Alenes Company

Richard J. Stoehr^{2, 4}

Mining Industry Consultant; Retired Senior Vice President Homestake Mining Company

Norman Visnes^{1, 3}

Consultant; Retired Vice President — Mining ASARCO Incorporated

W. Burney Warren^{2, 4, 5}

Retired President The El Paso Company

¹ Member of Executive Committee

² Member of Finance Committee

³ Member of Audit Committee

⁴ Member of Directors Nominating Committee

⁵ Member of Compensation Committee

Officers and Management Staff

Corporate Headquarters
Coeur d'Alene, Idaho

Arthur Brown

Chairman, President and Chief Executive Officer

William J. Grismer

Senior Vice President, Secretary

Elmer L. Bierly

Vice President — Investor and Public Affairs

Gene K. Ealy

Vice President — Exploration

Roger A. Kauffman

Vice President — Industrial Minerals

Robert H. Wallace

Vice President — Treasurer

Joseph T. Heatherly

Controller

Ronald B. Kahler

Manager — Technical Services

Jon T. Langstaff

Personnel Manager

Ralph R. Noyes

Manager — Metal Mining

Ned M. Tower

Manager — Marketing

Michael B. White

General Counsel, Assistant Secretary

David F. Wolfe

Assistant Treasurer

W. Glen Zinn

Assistant to the Chairman

Operations

Escalante Unit

Enterprise, Utah

Edward H. Hahne, Manager

Lucky Friday Unit

Mullan, Idaho

George R. Johnson, Manager

Republic Unit

Republic, Washington

Josef Suveg, Manager

Yellow Pine Unit

Yellow Pine, Idaho

John Rajala, Project Manager

Thor Lake Joint Venture

Northwest Territories, Canada

Joseph M. Maher, Project

Manager

Subsidiary Companies

Colorado Aggregate

Company of New Mexico

Blanca, Colorado

Robert W. Oringdolph,

President

Kentucky-Tennessee Clay Company

Mayfield, Kentucky

J. Gary Childress, President

Annual Meeting

The Annual Meeting of Shareholders will be held at Company headquarters in Coeur d'Alene, Idaho on Friday, May 6, 1988, at 9:00 AM (Pacific Daylight Time).

Corporate Office

6500 Mineral Drive
Box C-8000
Coeur d'Alene, Idaho 83814
Phone: 208-769-4100
Telex 326476
Fax 208-769-4107

Investor and Public Affairs

Analysts, investors, shareholders and news media desiring information about the company should contact Elmer L. Bierly or William B. Booth at the address and telephone number listed above.

Form 10-K

A copy of Hecla Mining Company's Form 10-K Annual Report, filed with the Securities and Exchange Commission is available upon request.

Transfer Agent and Registrar

Manufacturers Hanover Trust Co.
Bank Window
Church Street Station
New York, New York 10015

Stock Exchange Listing

Shares of the Corporation are traded on the New York Stock Exchange and the Pacific Stock Exchange. The Hecla Trading Symbol is HL.



Hecla
Mining Company

6500 Mineral Drive
Box C-8000
Coeur d'Alene, Idaho 83814
Phone (208) 769-4100
Telex Number 326476
FAX Number (208) 769-4107

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Mine Permit Number MD210054 Mine Name Escalante Silver
Operator Hecla mining co Date 12-31-1987
TO _____ FROM _____

☐ CONFIDENTIAL ☐ BOND CLOSURE ☐ LARGE MAPS ☒ EXPANDABLE
☐ MULTIPUL DOCUMENT TRACKING SHEET ☐ NEW APPROVED NOI
☐ AMENDMENT ☐ OTHER _____

Description

YEAR-Record Number

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

1987 Annual Report

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

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☐ TEXT/ 8 1/2 X 11 MAP PAGES ☐ 11 X 17 MAPS ☐ LARGE MAP

COMMENTS: _____

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